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FM AMEMBASSY JAKARTA
TO RUEHC/SECSTATE WASHDC PRIORITY 2410
INFO RUEHXS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS
RUEHBY/AMEMBASSY CANBERRA 0197
RUEHWL/AMEMBASSY WELLINGTON 1198
RHHMUNA/HQ USPACOM HONOLULU HI
RUEHGP/AMEMBASSY SINGAPORE 5624
RHMFIUU/DEPT OF ENERGY WASHINGTON DC
RUCPDOG/DEPT OF COMMERCE WASHDC
ZEN/AMCONSUL SURABAYA

UNCLAS JAKARTA 013448

SIPDIS

DEPT FOR EAP/MTS AND EB/ESC/IEC
DEPT PASS OPIC, EXIM, TDA
DOE FOR CUTLER/PI-32 AND NAKANO/PI-42
COMMERCE FOR USDOC 4430

FROM AMCONSUL SURABAYA #2689

SENSITIVE
SIPDIS

E.O. 12958: N/A
TAGS: [ECON](#) [EINV](#) [EPET](#) [PGOV](#) [ID](#)
SUBJECT: East Java Mudflow: Lapindo Defaults,
Contractors Walking Out

Ref. A: Jakarta 13358
Ref. B: Jakarta 12733 notal

1. (SBU) ConGen Pol/econoff and Jakarta USAID officers visited the PT. Lapindo Brantas (Lapindo) mud volcano site and the relief well operation in Porong, East Java (Ref. A) on December 8, meeting with several representatives of contractors working on the relief well. According to the contractors, Lapindo has stopped paying everyone supplying and running its relief well operation. The relief well is the last and only hope of quickly killing the fractured gas well (Ref. B) that is spewing over 200,000 cubic meters per day of hot mud. (Note: The mud volcano is approximately 12 miles south of ConGen Surabaya. End Note.) Lapindo is now USD 10 million in arrears to the drilling rig owner and operators of the well. As a result, the operators shut down the drilling rig at a safe point and presented demand letters for payment in full by December 8 or they would all simultaneously and permanently walk off the job. There are several American contracting firms working at the relief well, including Haliburton and Boots and Coots. At close of business on December 8, none of the contractors had been paid and Haliburton left East Java once again.

2. (SBU) Contractors had previously stopped work in October over non-payment issues but returned after Purnomo Yusgiantoro, Minister for Energy and Mineral Resources, guaranteed payment and established a USD 4 million deposit as advance payment. The deposit is now spent and Lapindo is not offering any signs that it will meet the contractor's demands, claiming they have run out of funds. Initially, the new Lapindo Chief Financial Officer promised payment of all arrears by the deadline, but later returned to the contractors asking for extensions and payment plans. The contractors stated that Minister Purnomo and the head of the National Mud Disaster Team (Timnas), Basuki Hadimulyono, were both aware of the lack of payment and status of the relief well.

3. (SBU) Despite the recent press reports claiming

imminent failure of the relief well, the well operators remain confident that the relief well project will be successful with the caveat that they will need a second well to create sufficient hydrostatic pressure to stop the flow of water. They claim that with USD 100 million and control of the drilling operation, they can kill the well by March or April 2007. They remain highly frustrated with the lack of payment for both the primary contractors and their suppliers as well as Lapindo and Timnas's insistence on having final decision making authority. One contractor summed it up, "I understand their wanting to be the heroes here. But, they have no clue what they are doing and they are making it impossible for us to do our jobs and kill this off before more people are hurt and homes are destroyed."

PASCOE